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Local Finance Notice

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CY 2010 State Aid Certification

On March 16, 2010, Governor Chris Christie presented his proposed FY 2011 budget to the State Legislature. The transmission of the budget authorizes the Division of Local Government Services to provide CY 2010 and SFY 2011 State Aid revenue estimates to municipal governments.

The Governor's speech emphasized the dire and precarious fiscal condition of the State. His proposed FY 2011 budget of \$28.3 billion is \$1.6 billion less than the current budget.

The budget calls for a wide range of reductions across all areas of State spending. For municipalities, the budget for State aid has been reduced almost \$359 million from last year's total aid appropriation.

In addition, budget language regarding State aid distribution is being modified to reduce aid payments to those municipalities that use formula aid reductions as an add-on to the levy cap calculation. In other words, any amount of state formula aid reduction used as a levy cap exception [N.J.S.A. 40A:4-45(b)(2), as shown on Line A-10 of the Levy Cap Calculation Workbook] will result in an offsetting decrease to CMPTRA/ETR formula aid payments.

This budget and the changes in State policy it represents, require that municipal officials **immediately and actively** examine a wide range of actions to control and reduce costs and take actions such as:

- Considering not only how services are provided, but the need for them;
- Sharing services with neighboring governments, schools, and county agencies;
- Reviewing all employee contracts and benefits policies for consistency with the economy and government financial conditions; and,
- Taking advantage of all opportunities to reduce costs before exercising their local authority to increase property taxes.

The Governor also proposed legislation that will assist local officials in managing their costs. The Legislature will be considering those proposals over the next few months.

The budget proposal also includes a new program to encourage municipal officials to adopt a range of “best practices” as an incentive to receive a full payment of Consolidated Municipal Property Tax Relief Aid (CMPTRA) and Energy Tax Receipts (ETR) State aid. In order to receive the final five percent payment, a municipality will have to certify that it meets a variety of best administrative, financial management, or operational practices.

The details of the aid reductions and language follow below. Chief Financial Officers are urged to distribute this information to elected officials and staff as appropriate, and to their Registered Municipal Accountant.

Budget Certification

The budget proposes reduced funding for Consolidated Municipal Property Tax Relief Aid (CMPTRA), Energy Tax Receipts (ETR), and the Garden State Trust Fund. Eliminated are the Watershed Moratorium Offset, Pinelands Property Tax Stabilization, and Highlands Property Tax Stabilization Aid programs.

Further, funding for Special Municipal Aid, Extraordinary, and Capital City Aid have been consolidated into a single new program, Transitional Aid (TA). This program allows the Director of the Division of Local Government Services and the Local Finance Board authority to meet the most pressing needs of the most fiscally stressed municipalities, and provide for an appropriate level of state oversight of local spending to offset the aid. Details are described below.

The aid certification for each municipality is available on the Division’s web site under the [Municipal State Aid](#) heading. Local officials can obtain their certifications from the web site; they are not mailed. The certifications show aid allocations for each municipality and are used in preparing the revenue section of CY 2010 budgets. A full spreadsheet of CY 2010 and SFY 2011 budgeted allocations is also on the web site. While the proposed budget can serve as a guide to SFY municipalities, final SFY certifications are posted once the final budget is adopted in June.

The budget calendar was extended in [Local Finance Notice 2010-2](#). The March 31 introduction date is now modified only to the extent that the introduction date for budgets that cannot be introduced by March 31 is extended to the next regularly scheduled governing body meeting after March 31.

Consolidated Municipal Property Tax Relief Aid and Energy Tax Receipts

The total of CMPTRA and ETR is reduced by approximately 17 percent, or \$272 million from \$1.565 billion to \$1.293 billion. While the required inflation rate was zero percent, the proposed budget meets the minimum statutory requirements of the ETR program. In part, this is accomplished by a reduction formula (see below), and then prorating and transferring funds from CMPTRA to ETR to ensure the ETR minimum of the 2002 individual municipal appropriations and a total \$1.029 billion ETR appropriation

The reductions to the program follow two steps; the allocation of the \$272 million reduction and CMPTRA transfers to ensure all municipalities receive the minimum required ETR. The reduction reflects the formula used in 2009; the principle that municipalities with higher wealth and lower taxes can absorb more of an aid reduction than a municipality with low wealth and high taxes.

Under this approach, “wealth” is calculated by measuring per capita income and equalized property value per capita. This approach is similar to the way school aid formulas use wealth. Taxes were measured by using the equalized property rate.

Similar to last year, the calculation placed municipalities into nine groups based on low, medium, and high equalized tax rates and wealth. Each municipality’s FY 2010 allocation was reduced by a different percent, based on the wealth/tax burden group; i.e., the highest tax/lowest wealth group received a 14.45 percent reduction, while the highest wealth/lowest tax burden group received a 26.45 percent reduction. The final total was allocated between the two programs by reducing CMPTRA appropriations and ensuring the statutory minimum of ETR is paid.

The following table shows the grouping, percent reduction, and number and percent of municipalities in each group.

Grouping	% Reduction	# Affected	% of Municipalities
Low rate/High income	26.45%	24	4.2
Medium rate/high income	24.95%	12	2.1
High rate/high income	23.45%	123	21.7
Low rate/medium income	21.95%	52	9.2
Medium rate/Medium income	20.45%	248	43.8
High rate/medium income	18.95%	16	2.8
Low rate/low income	17.45%	42	7.4
Medium rate /low income	15.95%	33	5.8
High rate/low income	14.45%	16	2.8
		566	100%

The full CMPTRA/ETR calculation is shown on individual aid certifications. The certification also displays the group and percent reduction for each municipality. All population based calculations use the State Department of Labor and Workforce Development [2008 Municipal Population Estimates](#).

The reductions also affect municipalities with Business Personal Property (BPP) adjustment responsibilities and those with responsibilities to pay fire districts aid allocated to them under the old Supplemental Fire Services Program; in addition to the traditional split of BPP amounts between the municipality and school. For the SFSP, the budget proposal provides that the aid paid to the fire district is prorated by the overall percent reduction in combined CMPTRA/ETR. This applies to the total reduction in these programs received over time. The aid certifications provide the calculations of these amounts.

All CY 2010 budgets must reflect the certified aid. Amending resolutions for previously introduced budgets must include corrections to ETR and CMPTRA.

The basis for the initial ETR program was described in [Local Finance Notice MC 97-6](#). ETR is shown as a single line item, with payments made between August 1 and December 1, and for some CY municipalities, a final single payment on or about July 15.

Transitional Aid

The Governor's FY 2011 budget proposes \$159 million for Transitional Aid (TA). TA funds are not for replacement of aid losses and/or normal and anticipated increases in costs. This aid focuses on those few municipalities with combinations of large structural deficits, limited ability to control expenses due to the need to deliver critical services, and will otherwise impose disproportionately large municipal property tax increases.

Prior receipt of Special Municipal Aid, Extraordinary Aid, or Capital Cities Aid does not automatically qualify a municipality for TA. The program will also have enhanced levels of Division oversight with the expectations that the municipalities will be moving to reduce their dependency on this aid.

The application is being developed and will be distributed when it is finalized. **Any plan for applying for TA requires a budget to be introduced pursuant to the timetable above.** The introduced budget cannot include anticipation of TA.

Garden State Preservation Trust Fund

The proposed budget reduces the FY 2011 appropriation for Garden State Trust by one third, from \$9.824 million to \$6.473 million. This reduction does not affect CY 2010 budgets, but will affect CY 2011 budgets. At that time, municipalities receiving less than \$5,000 from the payments made in October 2009 will no longer receive a payment.

Revenues received under this program during CY 2009 should have been reserved and must be anticipated in full in the CY 2010 budget. The amount received in the fall of 2009 is shown on the certification as the amount to be anticipated in CY 2010. Certifications for SFY municipalities show the reduced amount.

Best Practice Initiative

As a means of encouraging and rewarding local adoption of basic best government practices, the budget proposes that the final five percent CMPTRA/ETR aid payment will be withheld unless the municipality certifies that they meet a variety of pre-selected best practice standards, including adoption of a budget without use of a levy cap adjustment for formula aid reductions. Calendar Year municipalities will have until mid-November to certify compliance, while State Fiscal Year municipalities will have their last payment deferred until June of 2011 and have until then to meet the standards.

The program is currently under development by the Division. It is expected that many of the best practices will be those currently deployed by many municipal governments, and will encourage the adoption of new ones. The plan anticipates there will be a variety of practices that count toward meeting the minimum standards, and only practices that apply to a specific government will be considered in the evaluation.

Payment Schedule

A final aid payment schedule will be provided in July, prior to the first payment on August 1.

Payments to most municipalities are made electronically through the Automated Clearing House payment system. In order for this system to work properly, any changes in the municipality's depository bank must be reported to the Division, as soon as possible, so the necessary changes can be made in the payment computer system. If the bank or account number changes, the [Credit](#)

[Authorization Agreement for Automatic Deposits form](#) and instructions can be obtained from the State Office of Management and Budget website.

Approved: Marc Pfeiffer, Acting Director

Table of Web Links

Page	Shortcut text	Internet Address
2	Municipal State Aid	http://www.state.nj.us/dca/lgs/muniaid/aidmenu.shtml
2	Local Finance Notice 2010-2	http://www.nj.gov/dca/lgs/lfns/10lfns/2010-2.doc
2	2008 Municipal Population Estimates	http://lwd.dol.state.nj.us/labor/lpa/dmograph/est/est_index.html#mun
3	Local Finance Notice MC 97-6	http://www.nj.gov/dca/lgs/lfns/pre_98lfns/mc-1997-6.pdf
5	Credit Authorization Agreement for Automatic Deposits form	http://www.state.nj.us/treasury/omb/forms/index.shtml